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SUBJECT: 2010 INVESTMENT CLIMATE STATEMENT FOR HONG KONG

REF: 09 STATE 124006

Openness to Foreign Investment

¶1. The Hong Kong Government welcomes foreign investment, neither offering special incentives nor imposing disincentives for foreign investors. Hong Kong's well-established rule of law is applied consistently and without discrimination. There is no distinction in law or practice between investments by foreign-controlled companies and those controlled by local interests. Hong Kong is a member of the World Trade Organization in its own right and a separate customs territory. Hong Kong is a duty free port, except for a small number of tariffs on products such as cigarettes and distilled alcohol. There are no quotas or dumping laws.

¶2. Foreign firms and individuals are allowed freely to incorporate their operations in Hong Kong, register branches of foreign operations, and set up representative offices without encountering discrimination or undue regulation. There is no restriction on the ownership of such operations. Company directors are not required to be citizens of, or resident in, Hong Kong. Reporting requirements are straightforward and not onerous.

¶3. Hong Kong's extensive body of commercial and company law generally follows that of the United Kingdom, including the common law and rules of equity. Most statutory law is made locally. The local court system provides for effective enforcement of contracts, dispute settlement, and protection of rights. Formalities are minimal in company incorporation and business registration. Foreign and domestic companies register under the same rules and are subject to the same set of business regulations.

¶4. The Hong Kong Government's InvestHK encourages inward investment as a means of introducing new or improved products, processes, designs and management techniques. U.S. and other foreign firms can participate in government financed and subsidized research and development programs on a national treatment basis.

¶5. Capital gains are not taxed, nor are there withholding taxes on dividends and royalties. Profits can be freely converted and remitted. Foreign-owned and Hong Kong-owned firms are taxed at the same rate of 16.5 percent of profits. No preferential or discriminatory export and import policies affect foreign investors. Domestic industries receive no direct subsidies.

¶6. Foreign investments face no disincentives, such as quotas, bonds, deposits, or other similar regulations. The Hong Kong Code on Takeovers and Mergers (1981) sets out general principles for acceptable standards of commercial behavior.

¶17. According to Hong Kong Government statistics, 3,580 regional operations of overseas companies were registered in Hong Kong in 2009. The U.S. has the largest number of regional headquarters and offices in Hong Kong (815 companies), followed by Japan (671 companies), the United Kingdom (328 companies) and China (223 companies). The major lines of business of the regional headquarters include wholesale/retail, import/export, finance and banking, manufacturing, and transport and related services.

¶18. The Hong Kong Government owns all land, granting long-term leases without transferring title. Local and foreign leaseholders are treated equally. The Government plays a significant role in the housing market: about 50 percent of homes in Hong Kong are rented from the Government or purchased with government assistance at below-market rates.

¶19. With few exceptions, the Hong Kong Government does not attempt to limit the activities of foreign investors either in specified projects or sectors. Foreign investment in Hong Kong flows freely into the industrial sector as well as into services, franchises, restaurants, the entertainment industry, and the ownership of property, both residential and commercial. The telecommunications services market has been fully liberalized since January 1, 2003.

¶10. The exceptions to the Hong Kong Government's open foreign investment policy are:

Broadcasting - Voting control of free-to-air television stations by non-residents is limited to 49 percent. There are also residency requirements for the directors of broadcasting companies.

Legal Services - Foreign lawyers are able to practice foreign and international law in Hong Kong. Foreign lawyers can apply to take the Hong Kong Bar Examination and, if successful, practice Hong Kong law. Foreign law firms may not hire local lawyers to advise on Hong Kong law, but may themselves become "local" firms after satisfying certain residency and other requirements. They may thereafter hire local attorneys, but must do so on a 1:1 basis with the foreign lawyers. They also can form associations with local law firms.

¶11. Hong Kong has a free trade agreement with mainland China, referred to as CEPA, or the Closer Economic Partnership Arrangement. CEPA provides tariff-free export to mainland China of Hong Kong-origin goods and preferential access for specific services sectors. The agreement was originally implemented at the beginning of 2004 and has been expanded five times. When the third phase was implemented at the beginning of 2006, all Hong Kong-origin products became eligible for tariff-free access to mainland China. The sixth phase, announced in May 2009, introduced 29 liberalization measures covering 20 service sectors. Service providers in 42 sectors (e.g., logistics, distribution) now enjoy preferential treatment on the Mainland. U.S. and other foreign firms with a significant presence in Hong Kong are eligible to take advantage of CEPA concessions to enter the mainland market.

Conversion and Transfer Policies

¶12. Conversion and inward or outward transfers of funds for any purpose are not restricted. The Hong Kong dollar is a freely convertible currency that, since late 1983, has been linked via a de facto currency board to the U.S. Dollar at an exchange rate that is allowed to fluctuate in a narrow band between HKD7.75 - HKD7.85 = US\$ 1. There is no allocation of foreign exchange.

Expropriation and Compensation

¶13. The U.S. Consulate General is not aware of any expropriation actions in the recent past. Expropriation of

private property may occur if it is clearly in the public interest, but only for well-defined purposes such as implementation of public works projects. If this is the case, expropriations are to be conducted through negotiations, in a non-discriminatory manner in accordance with established principles of international law. Due process and transparency are to be observed. Investors in and lenders to expropriated entities are to receive prompt, adequate, and effective compensation. Property may be acquired under the State Land Resumption Ordinance, the Land Acquisition Ordinance, the Mass Transit Railway (Land Resumption and Related Provisions) Ordinance or the Roads Ordinance. These ordinances provide for payment of compensation. If agreement cannot be reached on the amount payable, either party can refer the claim to the Land Tribunal.

Dispute Settlement

¶14. The U.S. Consulate General is not aware of any investor-state disputes in recent years involving U.S. or other foreign investors or contractors and the Hong Kong Government. The Hong Kong Department of Justice is also not aware of any such disputes. Private investment disputes are normally handled in the courts or via private negotiation. Alternatively, disputes may be referred to the Hong Kong International Arbitration Center.

¶15. The Hong Kong Government accepts international arbitration of investment disputes between itself and investors. Following reversion to Chinese sovereignty on July 1, 1997, Hong Kong applies provisions of the International Center for the Settlement of Investment Disputes (ICSID), known as the Washington Convention, and the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. Hong Kong has also adopted the United Nations Commission on International Trade Law (UNCITRAL) model law for international commercial arbitration.

¶16. In June 2009, the Hong Kong Government introduced a bill to the Legislative Council to reform its arbitration law. The current Arbitration Ordinance provides separate regimes for domestic and international arbitrations. If the bill is passed by the Legislative Council, the Arbitration Ordinance will be replaced by the new law that will unify the domestic and international arbitration regimes. The Hong Kong Government intends to use the new arbitration law to help promote Hong Kong as a regional center for dispute resolution.

¶17. Hong Kong and mainland China signed a Memorandum of Understanding in June 1999 on an arrangement parallel to the New York Convention for the reciprocal enforcement of arbitral awards, since the New York Convention, being an international agreement, is no longer applicable to the enforcement of arbitral awards between Hong Kong and mainland China.

¶18. Hong Kong's legal system is firmly based on the rule of law and the independence of the judiciary. Courts of justice in Hong Kong include the Court of Final Appeal, the High Court (composed of the Court of Appeal and the Court of First Instance), the District Court, the Magistrate's Courts, the Coroner's Court, and the Juvenile Court. There are also a Lands Tribunal, Labor Tribunal, and other statutory tribunals.

Performance Requirements and Incentives

¶19. Hong Kong imposes no export performance or local content requirements as a condition for establishing, maintaining or expanding a foreign investment. Hong Kong offers no special privileges to attract foreign investment. There are no requirements that Hong Kong residents own shares, that foreign equity be reduced over time, or that technology be transferred on certain terms.

¶20. All of Hong Kong is a duty-free zone. Subject to

non-discriminatory application of excise taxes and restricted entry in some sectors, as noted above, local and foreign firms are free to take advantage of investment opportunities as they arise.

Right to Private Ownership and Establishment

¶21. Hong Kong law and regulations provide for the right of foreign and domestic private entities to establish, own and dispose of interests of business enterprises. Foreign investors are allowed, except for the sectors noted above, to engage in all lawful forms of remunerative activity. The Hong Kong Government does not generally engage directly in business activity via public enterprises. Business privileges, franchises and land development rights are granted on the basis of competitive equality.

Protection of Property Rights

¶22. Hong Kong's commercial and company laws provide for effective enforcement of contracts and protection of corporate rights. Hong Kong has filed its notice of compliance with the trade-related intellectual property (TRIPs) requirements of the World Trade Organization. The Intellectual Property Department, which includes the Trademarks and Patents Registries, is the focal point for the development of Hong Kong's intellectual property regime. The Customs and Excise Department is the principal enforcement agency for intellectual property rights (IPR). Hong Kong has acceded to the Paris Convention for the Protection of Industrial Property, the Bern Convention for the Protection of Literary and Artistic Works, and the Geneva and Paris Universal Copyright Conventions. Hong Kong also continues to participate in the World Intellectual Property Organization, as part of mainland China's delegation.

¶23. The Hong Kong Government devotes significant attention and resources to IPR enforcement. Implementation of laws

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ions of Hong Kong's copyright ordinance. The Hong Kong Government has conducted public education efforts to encourage respect for intellectual property rights. Nevertheless, pirated and counterfeit products remain available on a small scale at the retail level throughout Hong Kong.

¶24. In addition, end-use piracy of software and textbooks, the rapid growth of peer-to-peer downloading via the Internet, and the illicit importation and transshipment of pirated and counterfeit goods, including optical discs, pharmaceutical products and name-brand handbags and apparel from mainland China and elsewhere in the region, are continuing problems. Hong Kong authorities have taken steps to address these problems by: continued monitoring of suspect shipments at points of entry; establishing a task force to monitor and crack down on peer-to-peer (P2P) piracy over the Internet in December 2004; prosecuting software end-use piracy, and reviewing ways to strengthen copyright protection in the digital environment.

¶25. An additional vulnerability is that health authorities continue to permit the registration of generic drugs for marketing without regard to whether these products infringe on valid patents. Despite extensive consultations with industry, no progress has been made on closing this loophole.

¶26. The Copyright Ordinance protects any original copyright work created or published by any person anywhere in the world. The government enacted amendments to the Copyright Ordinance in July 2007. In particular, two new provisions create a criminal offence against the copying and distribution of infringing copies of printed works in business and a separate civil liability against the act of circumventing technological protection measures. These provisions became effective in July 2008.

¶27. The Copyright Ordinance amendments provide for rental rights for sound recordings, computer programs, films and comic books. The amended ordinance provides for enhanced penalty provisions against copyright piracy and additional legal tools to facilitate enforcement. It decriminalizes parallel imports of copyrighted products 15 months after their release anywhere in the world, but maintains civil penalties. It retains the existing scope of the law defining an offence as possession of an infringing copy of computer programs, movies, TV dramas, musical recordings (including visual and sound recordings) for use in business. This criminal liability applies equally to individuals and business organizations. The possession of an infringing copy of other categories of works for use in one's business will not attract criminal liability but may incur civil liability.

¶28. In April 2008, the Hong Kong Government proposed several additional amendments to the Copyright Ordinance designed to address the protection of IP in the digital environment. Content providers submitted written comments in 2008 on the government's proposals, and collaborated with Internet Service Providers (ISPs) and content user representatives in a government-led Tripartite Forum that sought to establish a voluntary compliance framework governing IPR protection in the digital realm. Tripartite Forum participants failed to reach agreement on a voluntary framework, and the Hong Kong Government restarted its efforts to draft digital IPR protection amendments to the Copyright Ordinance. Industry observers expect the Legislative Council to consider the amendments during the latter half of 2010.

¶29. The Patent Ordinance allows for granting of an independent patent in Hong Kong based on the patents granted by the UK and the Chinese Patent Offices. The patent granted in Hong Kong is independent and capable of being tested for validity, rectified, amended, revoked and enforced in Hong Kong courts.

¶30. The Registered Design Ordinance is modeled on the EU design registration system, with certain modifications. To be registered, a design must be new. The system requires no substantive examination. Protection is for an initial period of five years, and may be extended for four periods of five years each, up to a maximum of 25 years.

¶31. Hong Kong's trademark law is TRIPS-compatible and allows for registration of trademarks relating to services. All trademark registrations originally filed in Hong Kong are valid for seven years and renewable for 14-year periods. Proprietors of trademarks registered elsewhere must apply anew and satisfy all requirements of Hong Kong law. When evidence of use is required, such use must have been in Hong Kong.

¶32. Hong Kong has no specific ordinance to cover trade secrets. Under the Trade Description Ordinance, however, the Government has the duty to protect information being disclosed to other parties. The Trade Description Ordinance prohibits false trade descriptions, forged trademarks and misstatements in respect of goods supplied in the course of trade.

Transparency of Regulatory System

¶33. Hong Kong's body of law and regulation recognizes the value of competition in economic endeavor. Tax, labor, health and safety and other laws and policies avoid distortions or impediments to the efficient mobilization and allocation of investment. Bureaucratic procedures and "red tape" are held to a minimum and are equally transparent to local and foreign investors. Hong Kong does not have an anti-trust law. Hong Kong has, however, set up a Competition Policy Review Committee that issued recommendations in June 2006. These recommendations included a call for legislation to regulate price-fixing, bid-rigging, market allocation, sales and production quotas, joint boycotts, unfair or discriminatory standards and the abuse of dominant market position. The

government in 2009 announced its intention to submit a draft Competition Law to the Legislative Assembly during 2010. The government intends to establish a Competition Commission, along with a Competition Tribunal within the Judiciary to hear cases involving allegations of anti-competitive corporate behavior.

¶34. Currently, only the telecommunications and, to a lesser degree, the broadcasting sectors have competition regulations in place. The government stated that those two sectors will also come under the purview of the new Competition Law. Certain sectors of the economy are dominated by monopolies or cartels, not all of which are regulated by the Hong Kong Government. These entities do not discriminate against U.S. goods or services, but they can use their market position to block effective competition.

Efficient Capital Markets and Portfolio Investment

¶35. There are no impediments to the free flow of financial resources. Non-interventionist economic policies, complete freedom of capital movement and a well-understood regulatory and legal environment have greatly facilitated Hong Kong's role as a regional and international financial center. Hong Kong has one of the most active foreign exchange markets in Asia.

¶36. Hong Kong has a three-tier system of deposit-taking institutions: licensed banks, restricted license banks, and deposit-taking companies. Only licensed banks can offer current (checking) or savings accounts. At the end of 2009, Hong Kong had 145 licensed banks, 26 restricted licensed banks, 28 deposit-taking institutions, and 71 representative offices. The Hong Kong & Shanghai Banking Corporation (HSBC) is Hong Kong's largest banking group. With its majority-owned subsidiary Hang Seng Bank, and 208 branches, the group controls more than 29.8 percent of Hong Kong dollar deposits. The Bank of China (Hong Kong) is the second-largest banking group (205 branches), and controls 13.3 percent of Hong Kong dollar deposits. Thirty-five American "authorized financial institutions" operate in Hong Kong. U.S. banks licensed in Hong Kong are listed in Chapter 7 - U.S. Banks and Local Correspondent Banks. Most banks in Hong Kong maintain U.S. correspondent relationships.

¶37. Hong Kong's five largest banks, in terms of total assets (2008), are as follows:

Rank	Institution	Total Assets (US\$ Billion)
1	Hong Kong & Shanghai Banking Corp (HSBC)	546.2
2	Bank of China (Hong Kong)	143.3
3	Hang Seng Bank Ltd.	97.7
4	Standard Charter Bank, Hong Kong Branch	76.8
5	Bank of East Asia, Ltd.	53.2

Sources: Companies' annual reports

¶38. Credit in Hong Kong is allocated strictly on market terms and is available to foreign investors on a non-discriminatory basis. The private sector has access to the full spectrum of credit instruments as provided by Hong Kong's banking and financial system. Legal, regulatory, and accounting systems are transparent and consistent with international norms. The Hong Kong Monetary Authority (HKMA) functions as a de facto central bank. It is responsible for maintaining the stability of the banking system and managing the Exchange Fund backing Hong Kong's currency. The HKMA, with the assistance of the banking sector, has upgraded Hong Kong's financial market infrastructure. Real Time Gross Settlement helps minimize risks in the payment system and brings Hong Kong in line with international standards.

¶39. The Hong Kong Mortgage Corporation (HKMC) promotes the development of the secondary mortgage market in Hong Kong.

The HKMC is 100 percent owned by the Government through the Exchange Fund. The HKMC purchases residential mortgage loans for its own retained portfolio and also repackages mortgages into mortgage-backed securities for sale. In October 2009 (the latest figures available), the HKMC's outstanding amount of debt totaled US\$ 6.3 billion.

¶40. On September 26, 2006, a Deposit Protection Scheme (DPS) began operations. Depositors are now protected up to a maximum of HK\$100,000 (US\$12,820) per bank. As a result of the global financial crisis in late 2008, the Hong Kong Government announced the use of the Exchange Fund to guarantee the repayment of all customer deposits in Hong Kong-dollars and foreign-currency held with licensed banks, restricted license banks, and deposit-taking companies, including Hong Kong branches of overseas institutions. The measure will remain in force until the end of 2010. The DPS Fund (funded by contributions paid by member banks) amounted to US\$43.6 million at the end of March 2009, and is expected to reach the target amount of US\$ 166.7 million by 2010. While Hong Kong requires locally licensed banks to participate, overseas-incorporated banks may apply for an exemption if a comparable scheme in their home jurisdiction covers deposits taken in by its Hong Kong branches.

¶41. In 2004, the Hong Kong Monetary Authority (HKMA) and Dun & Bradstreet (HK) Ltd. (D&B) jointly launched a Commercial Credit Reference Agency (CCRA) to collate information about the indebtedness and credit history of small and medium-sized enterprises (SMEs) and make such information available to members of the Hong Kong Association of Banks (HKAB) and the Hong Kong Association of Deposit Taking Companies.

¶42. Under the Insurance Companies Ordinance, insurance companies are authorized by the Insurance Authority to transact business in Hong Kong. Hong Kong has the highest number of authorized insurance companies in Asia. As of December 2009, there were 173 authorized companies. Of these, 81 were foreign companies from 21 countries, and 2 were mainland Chinese enterprises. A number of the world's top insurance companies in terms of assets have branch offices or subsidiaries in Hong Kong.

¶43. Hong Kong's total market capitalization rose by 72.6 percent during 2009 to US\$2.3 trillion, with 1,140 listed firms as of year-end 2009. Hong Kong's stock exchange ranked third in Asia after Tokyo and Shanghai, and seventh in the world in terms of capitalization. Hong Kong Exchanges and Clearing Limited (HKEx), a listed company, operates the stock and futures exchanges. The Securities and Futures Commission, an independent statutory body outside the civil service, has licensing and supervisory powers to ensure the integrity of markets and protection of investors.

¶44. No discriminatory legal constraints exist for foreign securities firms establishing operations in Hong Kong via branching, acquisition, or subsidiaries. In practice, foreign firms typically establish operations in Hong Kong in the form of subsidiaries. Rules governing operations are the same, irrespective of ownership. Portfolio investment decisions are left to the private sector. No laws or regulations specifically authorize private firms to adopt articles of incorporation/association that limit or prohibit foreign investment, participation, or control.

¶45. The stock exchange plays a significant role in raising capital for Chinese state-owned enterprises. Chinese state enterprises may raise equity (through the issuance of so-called "H" shares) in Hong Kong provided they meet Hong Kong regulatory and accounting requirements. These "H" shares are denominated in Renminbi, but must be purchased in Hong Kong Dollars. In 2009, a total of 155 Chinese enterprises had "H" share listings on the stock exchange, with market capitalization of US\$ 605.6 billion.

¶46. Hong Kong has made a concerted effort to develop a local debt market with the Exchange Fund bills and notes program. Maturities now extend to ten years. Hong Kong Dollar debt

(public and private) has increased gradually, from US\$ 3.46 billion at the end of 1989 to US\$ 98 billion by the end of 2007, and rose to US\$127.2 billion by September 2009. Regional infrastructure financing requirements and increasing investor demand are projected to stimulate further development of the local debt market.

¶47. The Hong Kong Government requires workers and employers to contribute to retirement funds under the Mandatory Provident Fund (MPF) scheme. Contributions are expected to channel US\$ 3-4 billion per year into various investment vehicles. By the end of September 2009, the net asset values of MPF funds amounted to US\$37.4 billion.

¶48. The Exchange Fund Investment Limited (EFIL), established by the Government to dispose of the stock portfolio it purchased during the Asian Financial Crisis, completed its operations in January 2003. EFIL disposed of the stocks in the form of a mutual fund, the Tracker Fund of Hong Kong (TraHK), which is traded on the Hong Kong Exchange. The Government decided to retain a portion of the stocks (worth about US\$ 410 million) as a long-term investment. The HKMA assigns management of these stocks to private fund managers through a competitive bidding process.

Competition from State Owned Enterprises

¶49. Although Hong Kong has a free-market economy, the government is directly active in several economic sectors. It provides more than half the population with subsidized housing, the vast majority of hospital services and most education services from childhood through the university level. The government also owns major business enterprises such as the stock exchange, the railway company and the airport.

¶50. Conflicts occasionally arise between the government's respective roles as both owner and policy-maker. Industry observers have recommended that the Hong Kong government establish a separate entity to coordinate its ownership of government-held enterprises, and initiate a transparent process of nomination to the boards of government-affiliated entities. Other recommendations from the private sector include establishment of a clear separation between industrial policy and the government's ownership function, and minimization of exemptions of government-owned enterprises from general laws. The Exchange Fund, for example, is exempt from the securities disclosure laws in its purchases of shares (making its disclosures only on a voluntary basis).

¶51. The Hong Kong government's new Competition Law is expected to be sent to the Legislative Council for its consideration in 2010. Although it will address anti-competitive corporate behavior such as price fixing and bid rigging, the government has signaled that certain (unnamed as of 2009 year-end) government-affiliated enterprises will be exempted from the new law's purview. While the Hong Kong government's private sector ownership interests do not materially impede competition in Hong Kong's most important economic sectors (e.g., banking, external trade, tourism), private sector industry representatives have encouraged the Hong Kong government to adhere more closely to the OECD's Guidelines on Corporate Governance of State-owned Enterprises.

Corporate Social Responsibility

¶52. In November 2007, the Committee on the Promotion of Civic Education released its survey results on corporate social responsibility (CSR). The survey was conducted between November 2006 and April 2007 with 10,094 business establishments of various sizes. It focused specifically on four dimensions of CSR, namely: 1) improvement of the well-being of employees and their families; 2) minimization of negative economic, social and environmental impacts on

society; 3) ethical business operations; and 4) contributions to society. The survey revealed that only 23 percent of the firms were aware of the term "CSR," and only nine percent had institutional mechanisms to implement, monitor and evaluate CSR programs. Such programs remain relatively underdeveloped within Hong Kong's business community.

Political Violence

¶53. Hong Kong is politically stable. Demonstrations are almost always peaceful. The U.S. Consulate General is not aware of any recent incidents involving politically motivated damage to projects or installations.

Corruption

¶54. Hong Kong has an excellent track record in combating corruption. U.S. firms have not identified corruption as an obstacle to foreign direct investment. The Independent Commission Against Corruption (ICAC) is responsible for combating corruption. The ICAC is independent of the public service and the ICAC Commissioner is responsible directly to the Chief Executive. A bribe to a foreign official is a criminal act, as is the giving or accepting of bribes, for both private individuals and government employees. Penalties are stiff. For example, a civil servant who solicits or accepts any advantage without special permission of the Government can receive one year's imprisonment and a HK\$100,000 fine if convicted. Individuals in both the private and public sector can receive up to seven years imprisonment and a HK\$500,000 fine for offering, soliciting or accepting a benefit for performance or non-performance of an official duty.

Bilateral Investment Agreements

¶55. Hong Kong is negotiating a series of bilateral investment agreements -- the Hong Kong Government calls them "Investment Promotion and Protection Agreements" -- with major foreign investors. To date, Hong Kong has signed agreements with Australia, Austria, Belgo-Luxembourg Economic Union, Denmark, France, Germany, Italy, Japan, Korea, the Netherlands, New Zealand, Sweden, Switzerland, Thailand and the United Kingdom. The Hong Kong Government has initialed agreements with Canada and Vietnam. It is negotiating an agreement with Singapore. All such agreements are based on a model text approved by mainland China through the Sino-British Joint Liaison Group. The United States and Hong Kong held talks on a bilateral investment agreement in the late 1990s, but certain differences could not be resolved and negotiations were suspended. U.S. firms, however, are generally not at a competitive or legal disadvantage, since Hong Kong's market is open and its legal system impartial.

OPIC and Other Investment Insurance Programs

¶56. Overseas Private Investment Corporation (OPIC) coverage is not available in Hong Kong. Hong Kong is a member of the World Bank Group's Multilateral Investment Guarantee Agency (MIGA).

Labor

¶57. In the 1980s and much of the 1990s, Hong Kong's unemployment rate hovered around two percent. Reflecting structural changes in the local economy and weak global economic conditions, Hong Kong's unemployment rate rose to 5.1 percent by the end of November 2009. The Employees Retraining Board provides skills retraining for local employees to cope with ongoing structural change in the economy.

¶58. To address a shortage of highly skilled technical and financial professionals, the Hong Kong Government has made

efforts to attract qualified foreign and mainland Chinese workers. As of July 2003, conditions for admitting mainland Chinese for employment were eased and aligned with those applicable to foreign nationals.

¶59. In 2008, membership in Hong Kong's 752 registered unions totaled 708,953, a participation rate of about 21.5 percent. Hong Kong has implemented 41 conventions of the International Labor Organization in full and 18 others with modifications.

¶60. Local law provides for the right of association and the right of workers to establish and join organizations of their own choosing. The government does not discourage or impede the formation of unions. Workers who allege discrimination against unions have the right to have their cases heard by the Labor Relations Tribunal. Although legislation does not prohibit strikes, in practice most workers must sign employment contracts that state that walking off the job is a breach of contract and can lead to summary dismissal. Collective bargaining is legal in Hong Kong, but there is no obligation on employers to engage in it. In practice, collective bargaining is not widely used. For more information on labor regulations in Hong Kong, please check the following website:
<http://www.labour.gov.hk/eng/legislat/content A.htm> (click on Chapter 57 "Employment Ordinance").

Foreign-Trade Zones/Free Ports

¶61. Hong Kong is a free port without foreign trade zones. Hong Kong's modern and efficient infrastructure supports Hong Kong's role as a trade entrepot and regional financial and services center. Rapid growth in the region has placed severe demands on that infrastructure, giving rise to plans for major new investments, particularly in transportation and shipping facilities, over the next few years. Significant elements include a planned expansion of container terminal facilities, additional roadway and railway networks, major residential/commercial developments, community facilities, environmental protection project, and redevelopment of the old Kai Tak Airport. The Hong Kong Government is planning to spend over USD 13 billion in the next decade on redeveloping the old Kai-Tak Airport into a modern green zone that contains government offices, public housing, commercial centers and cruise terminals. Construction at the site began in July 2009.

¶62. Airport: During the twelve months ending November 2009, Hong Kong's international airport at Chek Lap Kok handled daily an average of 767 flights, 126,019 passengers, and more than 8,937 tons of cargo. Eighty-four international airlines operated some 5,800 scheduled flights per week between Hong Kong and 154 cities around the world. Hong Kong is a major gateway to mainland China. There are direct flights from Hong Kong to nearly forty Mainland cities. The demand for services to mainland China is growing. The Hong Kong airport is in the world's top ranks in terms of passenger and cargo throughput.

¶63. With 24-hour operations, two all-weather runways, an ability to cater to all types of commercial aircraft, and high-speed transport links from the terminal to the city, the airport is well positioned to meet Hong Kong's aviation needs in the coming decades.

¶64. The airport has a multi-modal marine cargo terminal that provides vessel services between various ports in the Pearl River Delta and the airport. To strengthen Hong Kong's position as the economic gateway of mainland China and Asia and to boost revenues, the Airport Authority (AA) has built "SkyCity", which includes a world-class exhibition center, Asia World-Expo; SkyPlaza, an office and retail complex; SkyPier, a cross-boundary ferry terminal; and a nine-hole golf course. In September 2008, Cathay Pacific Airways started to build the airport's third cargo terminal under a 20-year franchise agreement with the AA. Cathay Pacific will invest USD 615 million into the facility, which will occupy 10 hectares in the airport's cargo area. The new terminal was

initially expected to be completed by the second half of 2011, but in January 2009, Cathay announced it would delay completion for up to two years in response to falling cargo traffic resulting from the global economic slowdown. When complete, the facility will have a handling capacity of 2.6 million tons.

¶65. The organization responsible for safety oversight, the Civil Aviation Department, has commenced study, trials and evaluations of the satellite-based Communications, Navigation, Surveillance/Air Traffic Management (CNS/ATM) System. The new equipment will enhance flight safety and efficiency as well as maintain Hong Kong's status as a center of international and regional aviation. The project will take 15 years. CNS/ATM services including Digital-Automatic Terminal Information Service, Digital-Meteorological Information for Aircraft in Flight, delivery of Pre-Departure Clearance over data links, Aeronautical Telecommunication Network operations with Bangkok, and Air Traffic Services Inter-facility Data Communication with Sanya Area Control Center have been implemented at the airport.

¶66. Shipping and Port Activities: Hong Kong enjoys one of the best natural deep-water ports on the Chinese coast. With continued high economic growth and industrialization in mainland China, the development of deep-water ports at Yantian and Gaolan in southern China should complement Hong Kong's facilities over the medium term. Over the longer term, the Hong Kong port will face increased competition from those ports and from Shanghai, which are improving their service efficiency.

¶67. Hong Kong's container port is one of the world's busiest. In the first eleven months of 2009, Hong Kong's nine privately-operated container terminals and mid-stream operators handled 19.0 million twenty-foot equivalent units (TEUs) of cargo. Some 80 international shipping lines are providing over 450 container liner services per week connecting to over 500 destinations worldwide.

¶68. Hong Kong's container terminals handling capacity is 18 million twenty-foot equivalent units (TEUs) a year. The container terminals handle about 73 percent of the port's total throughput. The river trade terminal, mid-stream operators and other facilities handle the remaining 27 percent.

¶69. Roads and Railroads: Hong Kong's roads have one of the highest vehicle densities in the world. In October 2009, 579,722 licensed vehicles navigated about 2,049 kilometers of roads, or 283 vehicles per kilometer of road. This high density, combined with difficult terrain and high density building development, poses a constant challenge to transport planning, road construction and maintenance. To cope with worsening traffic congestion, largely due to the rapid growth in the number of private cars, the Highways Department has launched an extensive road construction program. The Highways Department has budgeted US\$ 5.4 billion for road projects between 2005/2006 and 2010/2011. In December 2009, Hong Kong started to build a bridge from the Western tip of Lantau Island to Macau and Zhuhai, paving the way for accelerated development of the Western Pearl River Delta region.

¶70. The Mass Transit Railway Corporation (MTRC) manages Hong Kong's metro rail system that includes nine lines of railway network with a total length of over 200 kilometers. Hong Kong is working on a massive expansion of its rail system. Investment in Hong Kong's domestic and cross-boundary rail networks in the next decade is expected to exceed in scale the US\$ 20 billion spent on the transportation facilities associated with the airport. Most of the projects involve linking existing lines or creating extensions to new points of interest. Hong Kong will push ahead with ten large-scale infrastructure projects, of which three are rail networks including the South Island Line (an extension of seven-kilometer rail to the South Island), the Sha Tin to Central Link (connecting Northeast New Territories and Hong Kong Island via East Kowloon), and the

Guangzhou-Shenzhen-Hong Kong Express Rail Link (a high-speed national rail network of 12,000 kilometers linking up major cities, with maximum train speeds of 200 to 300 kilometers per hour).

Foreign Direct Investment Statistics

171. Table 1: Stock of Inward Foreign Direct Investment by Major Investor Country/ Territory, as at end of 2008.

Country	US\$ Billion	% Share of Total
China	296.3	51.1
Netherlands	53.1	9.1
Bermuda	41.9	7.2
British Virgin Islands	38.7	6.7
United States	31.7	5.5
Japan	21.1	3.6
United Kingdom	14.9	2.6
Singapore	13.9	2.4
Cayman Islands	11.0	1.9
Cook Islands	7.1	1.2
Others	50.6	8.7
TOTAL	580.3	100.0

Source: Hong Kong Census and Statistics Department

Note 1: Excluding inward direct investment from offshore financial centers, which were originally from Hong Kong.

Note 2: US\$1 = HK\$7.8

172. Table 2: Stock of Inward Foreign Direct Investment by Major Economic Activity, as of end of 2008.

Activity	US\$ Billion	% of
Total		
Investment holdings, real estate and various business services	336.3	58.0
Wholesale, retail, import/export trades	82.3	14.2
Banks and deposit-taking companies	71.0	12.2
Financial institutions (non-banks)	23.1	4.0
Transport and related services	18.9	3.3
Insurance	13.0	2.2
Manufacturing	10.1	1.7
Construction	8.5	1.5
Communications	3.5	0.6
Restaurants and hotels	2.2	0.4
Other activities	11.3	2.0
TOTAL	580.2	100.0

Source: Hong Kong Census and Statistics Department

Note 1: Excluding inward direct investment from offshore financial centers, which were originally from Hong Kong.

Note 2: Total does not sum due to rounding.

173. Table 3: Stock of Outward Foreign Direct Investment by Major Resident Country/ Territory, as at end of 2008.

Country	US\$ Billion	% Share of Total
China	336.5	63.9
British Virgin Islands	108.4	20.6
Bermuda	10.1	1.9
United Kingdom	9.5	1.8
Singapore	6.7	1.3
United States	5.5	1.0
Liberia	5.3	1.0
Thailand	4.9	0.9
Malaysia	4.6	0.9
India	3.2	0.6
Others	31.8	6.0
TOTAL	526.5	100.0

Source: Hong Kong Census and Statistics Department

Note 1: Excluding outward direct investment of offshore financial centers which were channeled back to Hong Kong.

Note 2: Total does not sum due to rounding.

174. Table 4: Stock of Outward Foreign Direct Investment by Major Economic Activity, as of end of 2008.

Activity	US\$ Billion	% of
Total		

Investment holdings, real estate and various business services	346.2	65.8
Wholesale, retail, import/export trades	61.2	11.6
Banks and deposit-taking companies	26.8	5.1
Manufacturing	22.8	4.3
Transport and related services	20.9	4.0
Insurance	6.9	1.3
Restaurants and hotels	6.4	1.2
Financial institutions (non-banks)	4.4	0.8
Construction	3.5	0.7
Communications	2.7	0.5
Other activities	24.7	4.7
TOTAL	526.5	100.0

Source: Hong Kong Census and Statistics Department

Note 1: Excluding outward direct investment of offshore financial centers that were channeled back to Hong Kong.

¶75. Table 5: Amount and Growth of U.S. Investment in Hong Kong in 2004-2008, in US\$ Billions.

Year	Amount	Percent Change
2004	32.7	-10.2
2005	36.4	11.3
2006	39.6	8.8
2007	50.2	26.8
2008	51.5	2.6

Source: U.S. Department of Commerce, Bureau of Economic analysis, U.S. Direct Investment Position Abroad on a Historical Cost Basis.

Note 1: The U.S. Department of Commerce estimates the total U.S. direct investment position in Hong Kong at historical cost (the book value of U.S. direct investors' equity in, and net outstanding loans to, their foreign affiliates).

Note 2: U.S. Department of Commerce statistics differ from HKG statistics. Per Table 1 above, the latter indicates total U.S. investments of US\$ 31.7 billion at year-end 2008.

Note 3: Preliminary figures for 2008.

¶76. Table 6: Hong Kong's Pledged and Actual Direct Investment in mainland China in US\$ Billions and Percent Share of Total Investment in mainland China.

Year	Amount Pledged	Invested	% Share of Total
2001	20.7	16.7	35.7
2002	25.2	17.9	33.9
2003	40.7	17.7	33.1
2004	50.1	19.0	31.3
2005	N.A.	18.0	29.8
2006	N.A.	20.2	32.1
2007	N.A.	27.7	37.1
2008	N.A.	41.0	44.4
1978-2008	N.A.	348.5	40.9

Source: PRC Ministry of Commerce.

Note: PRC Ministry of Commerce stopped reporting the pledged foreign investment figures in December 2005.

¶77. Major Foreign Investor Firms:

United States: American International Group, AT&T, Bank of America, Caltex, Citigroup, Coca-Cola, Compaq Computer, Dell, Disney, ExxonMobil, Federal Express, Goldman Sachs, IBM,

Isagenix Worldwide LLC, JP Morgan Chase, Kodak, Merrill Lynch, Morgan Stanley, Motorola, Pacific Waste Management, Pepsi.

Japan: C. Itoh, Citizen Watches, Daido Concrete, Hitachi, Jusco, Kadokawa Intercontinental Publishing (Asia), Mitsubishi, NEC, Nishimatsu, Nomura, Olympus, Uny.

United Kingdom: HSBC, Inchcape Pacific, Jardine Matheson, Lloyds, P & O Shipping, Standard Chartered Bank, Swire Pacific Group.

Continental Europe: Asea Brown Boveri, Bachy-Soletanches, Banque Indosuez, Banque National de Paris, Bouygues/Dragages, Carlsberg, Cartier, Chanel, Christian Dior, Electrolux, Ericsson, Heraeus, Hong Kong Petrochemicals (Italian/Korean/Chinese joint venture), Lotto Sport Italia, Philips, Refratechnik, Remy, Siemens, Tetrapak.

Mainland China: Bank of China (Hong Kong), Beijing Enterprises, China Construction Bank Corporation, China Everbright, China Investment and Trust Corporation (CITIC), China Life Insurance, China Merchants, China Mobile, China National Offshore Oil Corporation (CNOOC), China National Petroleum Corporation, China Ocean Shipping Co (COSCO), China Overseas Construction, China Resources, China Travel Services, China Unicom, Guangdong Enterprises, Lenovo Group, Petro China, Shanghai Industrial, Yue Xiu Enterprises, Industrial and Commercial Bank of China (Asia).
Asia: Allahabad Bank, C.P. Pokphand, First Pacific Group, LG, Lippo Group, News Corp., Park View Properties, Pioneer, San Miguel Brewery, Shangri-la/Kerry Trading, Sime Darby, UTI Bank, Fubon Bank.

Web Resources

178. Hong Kong Census and Statistics Department:
<http://www.censtatd.gov.hk>
Hong Kong Monetary Authority: <http://www.info.gov.hk/hkma/>
Independent Commission Against Corruption:
<http://www.icac.org.hk/>
MARUT